



STATE OF WASHINGTON
DEPARTMENT OF COMMUNITY, TRADE AND ECONOMIC DEVELOPMENT
Energy Policy Division

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Bonneville Power Administration
P.O. Box 14428
Portland, OR 97293-4428
Via E-Mail: comment@bpa.gov

Re: Comments on the BPA Regional Dialogue Proposal

The Washington State Department of Community, Trade, and Economic Development (CTED) is pleased to provide comments on the July 7, 2004 document, *BPA's Policy Proposal for Power Supply Role for Fiscal Years 2007-2011*. We appreciate the years of discussion that lie behind the proposal. We also appreciate BPA's extensive public outreach and consultation that has accompanied its development. BPA should also be commended for the thoughtful and detailed nature of the proposal.

CTED is in overall agreement with the direction of the proposal. Our comments focus on those areas that most broadly affect the citizens of Washington and where we think the proposal needs to be improved or clarified. We are not commenting on the issues that primarily relate to bi-lateral relationships between BPA and its customers and that have no broader public policy implications for Washington State.

Future Service to Direct Service Industrial Customers (DSI)

Although the future of the aluminum industry in the Washington and the rest of the Northwest is, at best, uncertain, the legislature and governor of Washington have do not want to "close the door" on an aluminum industry revitalization or stabilization at a lower level of production. Earlier this year, Washington enacted legislation which provides limited duration tax incentives to our aluminum companies. This legislation was explicitly intended to provide a partial financial bridge to new BPA electricity rates in the hope that future BPA rates would be low enough for some aluminum plants to continue to operate. In the spirit of that legislation, we support a modest buy down on rates that would help competitive smelters survive. BPA's proposal for 500 aMW is a reasonable amount and the aluminum industry eligibility criteria are good ones.

Electricity Conservation/Efficiency

The Northwest Power and Conservation Council is on the verge of adopting its Fifth Regional Power Plan that will set ambitious, but clearly achievable, conservation targets. We are delighted that BPA has pledged to meet its share of the Council's targets. We offer a few suggestions about how BPA can improve its ability to do so.

First, we think it is essential that BPA should accurately and sufficiently budget for acquiring its proportionate share of regional conservation. BPA should not be tempted to acquire less than its full measure of our least expensive resource, conservation, through a shortsighted attempt to keep near-term rates low. Council staff has estimated that a one per cent increase in utility system revenues region wide

would be sufficient to meet even the most optimistic Council conservation targets. This suggests that short-term rate impacts on consumers would be small while the long-term benefits will be very large. BPA must take the long-term view on both conservation targets and conservation budgets.

We agree with the analysis, in the third bullet on p.19, that suggests that the C&RD needs to be revised but we offer some cautions. Alliance Market Transformation programs cannot be used as the only conservation cost benchmark because there is only a limited amount of conservation available at \$1million/aMW. This is also true for Conservation Augmentation. BPA should certainly work hard to develop a regional program that achieves the most conservation for the least cost. However, BPA needs to understand which conservation measures are best achieved through regional market transformation programs, which through regional, centrally run or centrally coordinated conservation acquisition programs, and which through utility run programs at the local level. These programs will necessarily have different measure and administration costs. Both the BPA Conservation Working Group and the regional conservation forum, called for in the draft Power Plan, will be important venues for determining the best path to meeting regional targets at the lowest realistic costs.

We agree with the principle in the third bullet that “only cost-effective measures and programs are a given.” That is the starting point for lowering the average cost of conservation acquisition in the coming years. BPA needs to commit itself to a systematic analysis of how its various programs compare in cost effectiveness so it can work with its stakeholders and the Regional Technical Forum in designing a coherent and effective set of conservation programs.

Second, BPA should use its contracts with utilities to clarify what each party will be expected to do in order to reach regional targets. Bonneville should seriously consider how it might use such contacts to help leverage the non-BPA portion of its customers’ loads. This could help the region better meet its targets and may also provide additional opportunities for overall cost savings. The Conservation Working Group should address how contractual obligations should be used as tools in developing conservation programs.

Third, the states can, and are, assisting the Northwest in meeting its conservation goals by capturing significant portions of the Council’s targets directly through codes and standards. With limited assistance, the states can achieve extremely high penetration rates often at very low costs. Washington State is eager to work with BPA and the region’s utilities to find ways to maximize acquisition of such “lost opportunity” resources.

Fourth, BPA should explicitly acknowledge that conservation investments have significant added value in making the electricity system more efficient, in improving the economic health of businesses, and in providing the cheapest and most immediate methods to reduce regional greenhouse gas emissions and reducing the negative impacts of global warming. Governor Locke has joined the governors of California and Oregon in the West Coast Governors’ Global Warming Initiative. As a key regional organization, BPA should acknowledge these added values of conservation.

We fully agree with the final bullet under Conservation Resources. BPA’s Conservation Working Group and the Power Council’s proposed regional stakeholder process are the appropriate entities to address questions of how best to integrate education and outreach into conservation programming.

Finally, as to low-income weatherization, while BPA’s support has been modest, it has provided an important supplement to national low-income weatherization funding and has enabled those dollars to be stretched further. BPA needs to continue to provide a dollar commitment to low-income weatherization as it has for renewables and other important programs.

Renewable Resources and Related Transmission Issues

BPA is correct to cite the Northwest Power Act at the beginning of “Section K. Renewable Resources.” While much of what BPA proposes to do to implement the letter and spirit of the Act is praiseworthy, notably its commitment to spend \$15 million per year, there are a number ways in which BPA can and should go further.

First, Bonneville should consider acquiring a steady amount of wind generated electricity over the next five years. This will do two things. It will provide BPA with the modest amount of additional resources it needs (as noted on p. 6 of the proposal). It will also offer the additional predictability and stability that wind developers need in order to make new long-term investments in the region.

Second, transmission issues are a particularly important aspect of renewables development. We have some suggestions for areas that should be explored further:

- The transmission queuing process needs to be improved. BPA should examine whether a separate renewables queue could be created so wind projects or other renewable resources would not have to compete with large thermal resources in getting their transmission needs studied. Even large wind projects (200-300 MW) are relatively small incremental additions to the system (only 65-90 aMW). We have heard that FERC may be willing to consider a separate fast track BPA queue for small interconnects. We understand that BPA is reviewing its transmission queue policies and will attempt to address many of the issues that developers have raised about the queue’s fairness and efficiency. This is a good start and we look forward to seeing the results.
- In general, BPA (and the region) should begin to reassess whether a market-oriented system is the best way to provide transmission services. The current hybrid system of ownership of generation by regulated private utilities, local and federal agencies and independent power producers and ownership of transmission by federal agencies and regulated IOUs is proving unworkable because no one knows who is supposed to be sending market signals to whom. Washington has adopted Energy Strategy Guiding Principles that assume that utilities are responsible for meeting their own loads and will acquire resources to do so. We envision utilities informing developers that specific resources are needed. In this model, generators only seek transmission when they have specific buyers for their electricity and thus have utilities as partners as they seek to acquire transmission. If BPA placed a priority on providing new transmission to those utilities that need to acquire new resources to meet their native loads, developers would get the right signals about what resources to build and where.
- Begin to re-join the Transmission and Power Business lines. There are strong financial reasons to do so. It became clear during the Net Revenue Improvement Sounding Board meetings that the duplication of functions costs BPA many millions of dollars each year. In addition, we believe planning would be improved. The extreme prohibitions that prevented transmission and power business line staff from talking to each other went too far and far exceeded what is needed to maintain a reasonably open transmission system. Transmission planners need to know what power planners expect new resources and loads to be and power planners need to know what new transmission lines and upgrades are being planned. With many utilities putting wind in their IRPs, it only makes sense that transmission planners think about how to accommodate those new resources
- FERC is beginning to back off from its most stringent requirements and expectations about the role of RTOs and power markets. BPA should no longer feel prevented by FERCs orders 888 and 2000 from implementing common sense transmission policies that enhance service to its own power customers and can save the region money.

- BPA should offer new transmission products that maximize the current transmission capacity. We have discussed with BPA staff the introduction of a “conditional firm” transmission contract. While there is much to do to perfect this idea before it is offered to potential transmission customers, this concept is illustrative of the kind of creative thinking that needs to be undertaken in order to make more transmission available for renewable resources without augmenting the current system.

Cost Control

CTED has been among those who have constantly urged BPA to be more transparent in its finances and more consultative and collaborative in discussing them. We are happy to acknowledge that BPA has made great strides towards meeting our concerns and deserves great praise for developing mechanisms and forums for providing timely and accurate financial data. Our staff has attended and participated in many of these activities and has seen continuous improvement in both data and process.

Going forward, we think BPA has outlined (on pp. 22-29) a reasonable proposal for how to proceed in the near future. More collaborative forums are a good idea. BPA is on the right track in trying to establish criteria for public comment on BPA decisions. This will make it clear that not all BPA decisions are subject to comment by customers and other stakeholders, and will also enable BPA and its stakeholders to distinguish between costs that BPA can control and those it cannot. BPA has endured much needless criticism for actions about which it has had little or no financial control. BPA might want to set a threshold for the dollar amount of expenditures or activities so that time and effort is not wasted on small cost items while big-ticket items are left undiscussed. One of the virtues of the Sounding Board, was that it forced members to look at activities that could lead to meaningful cost cuts and revenue enhancements. There was no point in considering small expenditures or revenue shortfalls no matter how much they annoyed members for ideological or historical reasons.

BPA needs to keep the process inclusive and public. It will need to continue to resist pressure from the customers to focus only on “bi-lateral business relationships” and cost-cutting which threaten its role as a public agency. BPA, of course, is also under pressure to spend money for public purposes. Making sure that all parties are at the table will ensure that the full range of public debate on the issues takes place.

Addressing long-term issues

We understand that BPA proposes to conduct a three-year rate case and then, at the conclusion of that period (Sept. 2009) replace the current contracts (that expire in Sept. 2011) with new contracts that embody the long-term structure for BPA. This is a reasonable timeline. The process outlined on pages 24 to 29 is a reasonable one. We would like to highlight two concerns.

First, BPA must ensure that the Regional Dialogue continues to be inclusive of all interests and stakeholders. The work by both the Council and BPA has thus far been exemplary and we hope that as the focus turns to new contracts, BPA will realize that it is not its utility customers alone who have a stake in the structure of those contracts. We are pleased that BPA acknowledges this on page 27.

Second, BPA has been playing an important role in west-wide and regional adequacy forums and must continue to do so especially as it moves to reduce its role in meeting the load growth of its utilities. Challenge #5 addresses the importance of “developing regional resource adequacy metrics/standards.” BPA should begin discussions with its customers about requiring those who are not full-requirements customers to do integrated resource plans (or perform some similar analytical planning exercise) so that, as regional power acquisition decisions become more and more decentralized, there is a transparent and

analytical basis to determine whether sufficient regional resources exist to meet loads.

With this proposal BPA is headed in the right direction. We look forward to continuing to work with you on issues of mutual concern to BPA and Washington State.

Sincerely,

A handwritten signature in dark ink, reading "Tony Usibelli". The signature is written in a cursive, flowing style.

Tony Usibelli, Assistant Director
Department of Community, Trade
and Economic Development
Energy Policy Division